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July 14, 2008

VIA HAND DELIVERY

Gene Jarmon
General Counsel and Chief Clerk
Texas Department of Insurance
Mail Code 113-2A
333 Guadalupe
P.O. Box 149104
Austin, TX 78714-9104

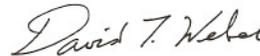
**Re: Filing of Safeco Petition to Amend the Texas Basic Manual of Rules,
Classifications and Experience Rating Plan for Workers'
Compensation and Employers' Liability Insurance**

Dear Gene:

On behalf of our client, Safeco Insurance Companies, please find attached a petition proposing amendments to the Texas Basic Manual of Rules, Classifications and Experience Rating Plan for Worker's Compensation and Employers' Liability Insurance ("the Manual") and related exhibits of specific language for the amendments to the Manual.

This filing is submitted pursuant to the requirements of Article 5.96, Texas Insurance Code. Should you have any additional questions, please feel free to contact us. Thank you for your time and assistance in this matter.

Sincerely,



David T. Weber

Attachments

cc: Nancy Moore, TDI
Kim Yelkin
Woody Pogue

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PETITIONER § **BEFORE THE**
SAFECO INSURANCE § **COMMISSIONER**
COMPANIES § **OF INSURANCE**

PETITION FOR ADOPTION OF AMENDMENTS TO THE TEXAS BASIC MANUAL OF RULES, CLASSIFICATIONS AND EXPERIENCE RATING PLAN FOR WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE

Petitioner Safeco Insurance Companies (American States Insurance Company, American Economy Insurance Company, American States Insurance Company of Texas, and First National Insurance Company of America) ("Safeco"), files this petition proposing adoption of amendments to the *Texas Basic Manual of Rules, Classifications and Experience Rating Plan for Worker's Compensation and Employers' Liability Insurance* ("the Manual").

This petition is authorized pursuant to the Texas Insurance Code ("Code"), Article 5.96 ("Article 5.96") and Sections 2053.001-002. Article 5.96 authorizes the Texas Department of Insurance ("TDI") to prescribe, promulgate, adopt, approve, amend or repeal standard and uniform manual rules, rating plans, classification plans, statistical plans, and policy and endorsement forms for workers' compensation insurance. Section 2053.001 of the Code defines "rate" to mean the "cost of worker's compensation insurance . . . adjusted to account for treatment of expenses . . ." Section 2053.002 of the Code provides that, in setting rates, an insurance company shall consider, *inter alia*, operation expenses, a reasonable margin for profit, and any other relevant factor.

Safeco proposes amendments to the Manual as follows:

1. Amend Rule VI, titled "Rates and Premium Determination", by adding a new Section L, to be entitled "Acquisition Expense Discount." The new section defines an acquisition expense discount ("discount") as a "premium credit given to policyholders written by the same insurance carrier who are members of a common group or organization". The discount allows an insurer that can identify and document reduced acquisition expenses to pass the savings on to their policyholders. The discount would be applied in addition to the premium discount and is applicable to minimum premium policies.

Each insurance carrier would be required to file with TDI the discount in accordance with the Texas Administrative Code, Title 28, Chapter 5, Subchapter M, Filing Requirements. Each carrier would be required to provide the following information:

- a. The definition of the common group or organization to which the acquisition expense discount will apply;
- b. The acquisition expense discount percentage; and
- c. Documentation supporting the discount.

Amend Rule VI, Section E, titled “Minimum Premium”, to state that the minimum premiums filed by the insurance carriers shall be reduced by the acquisition expense discount, if applicable.

2. Amend the Procedures Appendix, Section A (6), titled “Policy Issuance”, by adding to the list of items that must be included on the information page of the policy the acquisition expense discount factor, if any is applicable. The acquisition expense discount will be added as subsection “r”, and this amendment will necessitate a re-ordering and re-numbering of the items listed in the Procedures Appendix, Section A (6). The amount of the premium reduction, if applicable, would be shown on the information page of the policy.
3. Amend Rule III, Section E, titled “Calculation of Total Estimated Policy Cost” by adding to the list of items new item 19 for “Estimated Standard Premium After Premium Discount” and item 20 for “Acquisition Expense Discount, If Applicable”. These amendments will necessitate a reordering and renumbering of the current items listed as items “19, 20, and 21” to items “21, 22, and 23”, respectfully. If the minimum premium is the total estimated policy cost, the acquisition expense discount shall be applied to the minimum premium.

Safeco requests that the proposed amendments to the Manual as proposed herein be adopted effective 15 days after notice of adoption by the Commissioner of Insurance is published in the “Texas Register”.

Current PhraseologyNew Phraseology

RULES

RULES

RULE VI – RATES AND PREMIUM DETERMINATION

RULE VI – RATES AND PREMIUM DETERMINATION

L. ACQUISITION EXPENSE DISCOUNT1. Definition

An acquisition expense discount is a premium credit given to policyholders written by the same insurance carrier who are members of a common group or organization. The discount is given to reflect acquisition expense savings, such as a reduction in marketing or sales costs and commission reductions that are identified and documented by the insurance carrier.

2. Eligibility

Members of the common group or organization are eligible for an acquisition expense savings in the form of a discount, as filed by the insurance carrier. (Refer to Rule VI. L. 4.)

3. Application of Discount

- a. The acquisition expense discount factor is applied to the Estimated Standard Premium After Premium Discount. For example, if the filed acquisition expense discount is 5%, the factor is .95. (Refer to Rule III E.).
- b. This discount is applied in addition to the premium discount.
- c. This discount is applied to minimum premium policies.

4. Insurance Carrier Requirements

- a. Each insurance carrier is required to file with TDI the amount of the acquisition expense discount it proposes to offer to policyholders for each common group or organization. Each carrier must provide the following information:
 - (1) The definition of the common group or organization to which this discount will apply;
 - (2) The acquisition expense discount percentage; and
 - (3) Documentation supporting this discount.
- b. All filings shall be made in accordance with the requirements contained in Texas Administrative Code, Title 28, Chapter 5, Subchapter M, Filing Requirements.

Current Phraseology

New Phraseology

RULE VI – RATES AND PREMIUM DETERMINATION

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E. MINIMUM PREMIUM

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1. Explanation

The minimum premium is the lowest premium required in order to provide insurance under the Standard Policy. The minimum premium shall be stated on the Information Page. It is the lowest total policy premium for a one-year policy period. The minimum premium shall be prorated on policies issued for a period less than one year. For policies issued for a period over one year, refer to Rule III.

Minimum premiums for each classification are filed by the insurance carriers with this department.

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Minimum premiums for each classification are filed by the insurance carriers with this department.

Minimum premiums filed by the insurance carriers shall be reduced by the acquisition expense discount, if applicable (Refer to Rule VI. L.)

A. POLICY ISSUANCE

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6. The information indicated on the Information Page of the policy shall be complete in all details:

- r) Expense constant.
- s) Terrorism premium, if applicable
- t) Total estimated policy cost.
- u) Minimum premium.
- v) Deposit premium.
- w) Signature or name of authorized Texas agent countersigning policy.

6. The information indicated on the Information Page of the policy shall be complete in all details:

- r) Acquisition Expense Discount, if applicable.
- s) Expense constant.
- t) Terrorism premium, if applicable
- u) Total estimated policy cost.
- v) Minimum premium.
- w) Deposit premium.
- x) Signature or name of authorized Texas agent countersigning policy.

c. All Manual rules and procedures apply to each unit as if a separate policy had been issued.

D. STATE LAWS DESIGNATED IN THE POLICY - ITEM 3.A.

Coverage for operations conducted in a state is provided by listing the state in Item 3.A. of the Information Page.

E. CALCULATION OF TOTAL ESTIMATED POLICY COST**-Item 4

1. ESTIMATED PAYROLL X RATE = ESTIMATED ANNUAL PREMIUM FOR CLASSIFICATION
2. + ESTIMATED PAYROLL X RATE = ESTIMATED ANNUAL PREMIUM FOR CLASSIFICATION
3. + ESTIMATED PAYROLL X RATE = ESTIMATED ANNUAL PREMIUM FOR CLASSIFICATION
4. + AIRCRAFT PASSENGER SEAT SURCHARGE, IF APPLICABLE
5. + PREMIUM CHARGE FOR WAIVER OF SUBROGATION, IF APPLICABLE
6. + PREMIUM FOR INCREASED LIMITS FOR EMPLOYERS' LIABILITY, IF APPLICABLE
7. ± PREMIUM INCENTIVE FOR SMALL EMPLOYERS, IF APPLICABLE
8. = ESTIMATED PREMIUM SUBJECT TO EXPERIENCE MODIFIER (1+2+3+4+5+6±7)
9. x EXPERIENCE MODIFIER (OR NEGOTIATED MODIFIER), IF APPLICABLE
10. = ESTIMATED MODIFIED PREMIUM (8x9)
11. x SCHEDULE RATING PLAN FACTOR, IF APPLICABLE
12. = ESTIMATED MODIFIED/SCHEDULE RATING PREMIUM (10x11)
13. x NETWORK CREDIT FACTOR, if applicable *
14. = ESTIMATED MODIFIED/SCHEDULE RATING/NETWORK PREMIUM *
15. - DEDUCTIBLE CREDIT, IF APPLICABLE Based on Estimated Modified/Schedule Rating Premium
16. + MINIMUM PREMIUM FOR L. & H.W., ADMIRALTY OR F.E.L.A. OPERATIONS, IF APPLICABLE
17. = ESTIMATED STANDARD PREMIUM (14-15+16) *
18. - PREMIUM DISCOUNT, IF APPLICABLE Based on Estimated Standard Premium
19. + EXPENSE CONSTANT
20. + TERRORISM PREMIUM (TOTAL PAYROLL/100 x TERRORISM RATE), IF APPLICABLE
21. = TOTAL ESTIMATED POLICY COST Excluding premium adjustments for retrospective rating plan and/or reimbursements for deductibles, if applicable (17-18+19+20) *

** All workers' compensation policies are subject to a final payroll audit that reflects the actual payroll and the actual premium developed on the policy in comparison to the estimated payrolls and the estimated premium and estimated policy cost calculated at the time the policy is issued.

c. All Manual rules and procedures apply to each unit as if a separate policy had been issued.

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20. x ACQUISITION EXPENSE DISCOUNT FACTOR, IF APPLICABLE
21. + EXPENSE CONSTANT
22. + TERRORISM PREMIUM (TOTAL PAYROLL / 100 x TERRORISM RATE), IF APPLICABLE
23. = TOTAL ESTIMATED POLICY COST Excluding premium adjustments for retrospective rating plan and/or reimbursements for deductibles, if applicable ((19x20) +21+22).

If the minimum premium is the total estimated policy cost, the acquisition expense discount shall be applied to the minimum premium.

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